

Testimony of
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on the
Check Clearing for the 21st Century Act
before the
Subcommittee on Financial Institutions and Consumer Credit
of the
Committee on Financial Services
United States House of Representatives
on
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Chairman Bachus, Ranking Minority Member Sanders, and Members of the Subcommittee, thank you very much for the opportunity to testify on behalf of E*TRADE Financial today in support of H.R. 1474, the Check Clearing for the 21st Century Act (the “Act”).

My name is Dale Dentlinger, and I am the President of E*TRADE Access, Inc. E*TRADE Access operates an independent network of more than 15,000 automated teller machines (ATMs), making it the second largest ATM network in the United States. E*TRADE Access and its parent E*TRADE Bank are both subsidiaries of E*TRADE Group, Inc., a diversified financial services company that offers a wide range of financial products and services under the brand “E*TRADE Financial.”

E*TRADE Financial’s core strategy is to leverage technology to provide customers with superior, value-added brokerage, banking and lending products, primarily through electronic delivery channels. While E*TRADE Financial’s banking group offers a full suite of deposit and lending products, it differs from most other banks in that it does not have traditional brick and mortar branch offices. Instead, our customers interact with us via the telephone, the Internet and at any of our ATMs, which are located in all 50 states, including the top 20 major metropolitan areas in the U.S. This model allows us to operate efficiently and pass savings on to our customers.

Summary of Testimony

E*TRADE Bank's "branchless" structure and our already extensive experience with check truncation and digital imaging give us a somewhat unique perspective on the Act and its many potential benefits to consumers. E*TRADE Financial believes that the Act will foster a significant increase in the usage by banks of digital imaging and other new check processing technologies. By removing existing legal barriers to check truncation and reducing the payment system's reliance on paper checks, we expect the Act will:

- increase consumer convenience by expanding the availability of deposit-taking ATMs;
- provide consumers with quicker access to funds deposited into their accounts;
- increase consumers' confidence that checks deposited at ATMs will be accurately credited to their accounts; and
- provide consumers with new, cutting-edge products and services such as real-time access to digital images of third party checks deposited into their accounts.

Accordingly, E*TRADE Financial strongly supports the Act and commends Representatives Hart, Ford and Ferguson for their leadership on this important piece of legislation.

Current Law Limits the Ability of E*TRADE Financial's Customers to Make Full Use of Our ATM Network

The 15,000 ATMs in E*TRADE Financial's network are located in stores, restaurants and retail venues. They enable consumers to conveniently withdraw funds and allows E*TRADE Bank customers to transfer funds between accounts and view account balances. However, only 56 (or 0.4%) of our ATMs accept deposits.

We have not deployed more deposit taking machines because current regulations require us to send couriers to make daily pickups of the checks deposited at each of these ATMs. Under current law, original paper checks must be presented for payment unless the banks on which the checks are drawn have agreed to accept checks electronically. This courier cost makes it economically prohibitive for us to give full deposit-taking functionality to all but a handful of our highest volume machines.

The Act Is Likely to Increase the Number of Deposit-Taking ATMs by Making It Less Expensive for E*TRADE Access And Other Financial Institutions to Operate Them

The Act does not mandate check truncation but greatly facilitates it by allowing the first bank that accepts a check for deposit to truncate (or convert) the check into electronic data that can be used in the collection process. For those banks that still desire to receive paper checks as part of the collection process, the Act authorizes the delivery of paper substitute checks in lieu of the original checks. In E*TRADE Financial's case, this means that we will no longer need to incur the expense of daily courier pickups at our

deposit-taking ATMs. Instead, through the use of digital imaging technology installed at a machine, we will be able to convert a check deposited by one of our customers and use either the digital image or a substitute check to process the funds. The original checks can then be either periodically collected and stored for safekeeping or destroyed.

Without the expense of daily courier pickups, E*TRADE Financial will be able to add deposit-taking capabilities to many more ATMs in its network. Other financial institutions could be reasonably anticipated to increase the number of their own remote location ATMs that accept deposits as well, as the expenses associated with operating their deposit-taking ATMs will also decline. It is even possible in the future that networks of independently owned ATMs that accept deposits for customers of many different financial institutions will be organized. Thus, we expect the Act to give consumers many more choices and much greater convenience in terms of where, when and how they make deposits to financial institutions.

Electronic Check Processing Facilitated by the Act Is Likely to Give Customers Quicker Access to Funds Deposited into Their Accounts

As Vice Chairman Ferguson of the Federal Reserve Board and a number of others have already observed, enabling banks in the settlement process to transmit digital images of checks rather than the original checks themselves will produce a much more efficient payment system in this country. E*TRADE Financial also believes that, as a result of more widespread check truncation, checks consumers deposit into their bank accounts are likely to clear more quickly.

We anticipate that faster check presentment and collection will cause many banks to further reduce check hold times and give consumers even more rapid access to their funds. In practical terms, this means that consumers will be less likely to have checks returned due to insufficient funds in their bank accounts, less likely to be assessed fees by their banks for such returned checks and less likely to experience the inconvenience and credit concerns that oftentimes result from having an overdrawn account.

Digital Imaging Technology Will Increase Consumer Confidence in Using ATMs to Make Deposits

One of the concerns consumers have traditionally had about using an ATM to make a deposit is that they feel they are unable to prove they have actually placed a physical check in the machine. Also, consumers may be concerned that there is no assurance that a deposit, once made at the ATM, will ultimately reach the appropriate bank with the correct amount being credited to their account. While we have experienced very few actual problems when customers make deposits at our ATMs, we believe these concerns have limited consumers' use of the deposit taking function at ATMs.

Consumers who make ATM deposits today usually are provided with a printed receipt. However, since the deposit amount on the receipt only shows the number the customer enters on the ATM terminal display, the receipt is of little help should a dispute with the bank later arise. Also, since checks a consumer may deposit into his or her account are frequently government checks or checks drawn on large corporate accounts, it is often

difficult if not impossible for the consumer to ever obtain a copy of a third party's cancelled check (or some other physical evidence that the deposit had been made) from the entity that wrote the check.

We believe, as increasing number of financial institutions are encouraged by the Act to utilize digital check imaging technology, the kinds of consumer concerns discussed above will be alleviated. With electronification technology, when a consumer utilizes an ATM to make a deposit, the check that is deposited will be scanned and read, an electronic image of the check will be displayed on the ATM monitor, and the customer will be able to verify the accuracy of the check amount that is shown as being deposited. Also, once the deposit transaction is completed, the ATM will print out a receipt for the customer showing a reduced-size image of both sides of the deposited check.

We believe that visual displays and printouts will greatly increase consumers' confidence that checks deposited at an ATM will be accurately credited to their accounts. Customers will have confidence knowing that should any questions arise with respect to checks deposited to their bank accounts, they will have tangible evidence in the form of the check image on their receipt to support their claims. Having seen an on-screen image of the deposited check, they will also have greater certainty that the correct information regarding their deposit will be transmitted electronically to the bank's payments processing center. With these additional assurances, we expect more consumers will find making deposits at an ATM to be a viable, timesaving alternative to making a deposit at a bank's branch office.

Digital Imaging Technology Will Enable Banks to Provide Better Products and Services to Their Customers

Another benefit of banks' increased use of digital imaging technology is the ability to offer customers new value-added products and services. By way of example, for sometime now, E*TRADE Bank has been imaging its customers' own checks and providing monthly statement that contain images of checks paid that prior month. Customers with their questions about checks can go to the Bank's website and access a digital image of the check online or can call one of our customer service representatives (CSRs), who can be able to retrieve and view the customer's check image.

Since check images are available through the Bank's website and CSRs within a very short period of time after payment, check truncation enables our customers to easily confirm transactions, spot and correct errors or detect potential fraudulent transactions at their convenience. It also allows our CSRs to handle and resolve customer inquiries without the need for a second phone call – much quicker than if we needed to track down the original check or a copy on microfiche in order to respond.

Once our Bank is able to truncate not only our customers' own checks but also third party checks that our customers deposit into their accounts, we will be able to provide our customers and our CSRs with access to the digital images of those third party checks as well. As a result, our customers will be empowered to keep better track of their finances,

and our CSRs will have an additional tool that will help them to provide better customer service. We believe this kind of online deposit viewing feature, as well as many other innovative deposit-related products and services, are certain to evolve as check truncation becomes more widespread among financial institutions in this country.

Conclusion

E*TRADE Financial strongly supports H.R. 1474, the Check Clearing for the 21st Century Act, because it will lead to the widespread use of digital imaging and other innovative check truncation technologies that will benefit consumers in many important ways. The legislation will enable us to better meet the needs of our customers by increasing the number of deposit-taking ATMs in our network, giving customers quicker access to funds deposited in their accounts, and providing them with new value-added products and services.

Thank you again, Mr. Chairman for inviting me to testify, and I welcome any questions that you or other Members of the Subcommittee may have.